

## Message Text

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 EB-03 INR-05 NSC-05 NSCE-00

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2235

INFO TREASURY WASHDC

C O N F I D E N T I A L MEXICO 07832

LIMDIS

EO 11652: GDS

TAGS: EFIN MX

SUBJECT: PUBLIC SECTOR BUDGET

REF: MEXICO 7305

1. SUMMARY: EXECUTION OF 1977 PUBLIC SECTOR BUDGET WILL BE KEY DETERMINANT OF SUCCESS OR FAILURE OF GOM'S STABILIZATION PROGRAM. SOME OBSERVERS BELIEVE FISCAL CONSERVATIVES ARE WINNING INTERNAL POLICY DEBATE ON THIS ISSUE. WE ARE NOT CONVINCED THIS IS THE CASE. END SUMMARY.

2. THE ABILITY OF THE GOM TO MANAGE THE PUBLIC SECTOR BUDGET IN SUCH A WAY AS TO LIMIT THE DEFICIT TO A MANAGEABLE SIZE IS WIDELY VIEWED AS A, IF NOT THE KEY DETERMINANT OF THE SUCCESS OF THEIR STABILIZATION PROGRAM. RECENTLY, OBSERVERS OF THE MEXICAN ECONOMY HAVE BEGUN TO BELIEVE THAT THE FISCAL CONSERVATIVES ARE WINNING THE INTERNAL POLICY DEBATE ON THIS ISSUE. TO SUPPORT THIS VIEW, THEY CITE THE POSTPONEMENT OF SUCH MAJOR INVESTMENT PROJECTS AS THE LAS TRUCHAS STEEL WORKS AND THE LAGUNA VERDE NUCLEAR POWER PROJECT, PLUS COMMENTS BY GOM OFFICIALS IN VARIOUS AGENCIES TO THE EFFECT THAT A 10 PERCENT CUT

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IN CURRENT EXPENDITURES HAS BEEN ORDERED. AT LEAST ONE U.S. JOURNALIST (BUSINESS WEEK) WANTS TO WRITE A STORY TO THIS EFFECT.

3. AS YET, WE ARE NOT CONVINCED THAT THIS LINE OF REASONING IS VALID. APPARENTLY THE BUDGET IS BEING UNDERSPENT, OR AT LEAST WAS UNDERSPENT IN THE FIRST FEW MONTHS OF THE

YEAR. SOME OBSERVERS BELIEVE THIS MAY BE DUE IN PART TO THE DELAYS CAUSED BY THE ORGANIZATION OF THE NEW GOVERNMENT PLUS THE ADMINISTRATIVE REFORM PROGRAM OR, SIMPLY STATED, INEFFICIENCY. NO GOM OFFICIALS WHO SHOULD BE IN A POSITION TO KNOW (PROGRAMMING AND BUDGET, PRESIDENCY, TREASURY AND BANK OF MEXICO) HAS INDICATED THAT GOM PLANS TO UNDERSPEND BUDGET FOR THE ENTIRE YEAR. BOTH FACTORS LEAD US TO SUSPECT THAT THE RATE OF SPENDING COULD WELL PICK UP IN JUNE OR JULY.

4. SHOULD THIS DEVELOP THE KEY QUESTION IS WHAT MIGHT HAPPEN TO THE PUBLIC SECTOR BUDGET DEFICIT. THE BANK OF MEXICO BELIEVES THEY CAN FINANCE A DEFICIT OF 100-105 BILLION PESOS (NET NEW FINANCING REQUIREMENT) WITHOUT DIFFICULTY, ASSUMING THAT ROUGHLY 60 BILLION PESOS COME FROM NET NEW FOREIGN INDEBTEDNESS. THEY WORRY ABOUT THE IMPACT A LARGER DEFICIT WOULD HAVE ON THE MONEY SUPPLY AND INFLATIONARY PRESSURES.

5. WASHINGTON WILL RECALL THAT BUDGET PRESENTED TO CONGRESS IN DECEMBER FORECAST A NET FINANCING REQUIREMENT OF 127 BILLION PESOS. REVENUES ARE REPORTEDLY RUNNING AT FORECAST LEVELS; FURTHER SLIPPAGE, SHOULD IT OCCUR, WOULD MORE LIKELY BE ON EXPENDITURE SIDE OF BUDGET.

6. WHILE GOM MET FUND BUDGET TARGETS FOR THE FIRST QUARTER, IN PART BECAUSE OF SEASONAL FACTORS, THERE IS NO REASON TO ASSUME THAT THE GOVERNMENT WILL BE ABLE TO MEET THE FUND AGREEMENT TARGETS IN THE THIRD OR FOURTH QUARTER. CONFIDENTIAL

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THOMPSON

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